

Message Text

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PA-02 /124 W

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FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4604
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY ROME
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USMISSION GENEVA
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C O R R E C T E D C O P Y (SEE PARA 1 AND 2)

USMTN: PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

EO 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

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REF: PARIS 16964

1. SUMMARY

THE ECONOMY CONTINUES IN A STATE OF
LISTLESSNESS, AND WITH THE ANNUAL VACATION PERIOD
RAPIDLY APPROACHING, THERE IS NO INDICATION THAT

THERE WILL BE ANY SIGNIFICANT CHANGE UNTIL AT LEAST NEXT FALL. PRIME MINISTER BARRE STRONGLY DISMISSES THE POSSIBILITY OF ANY GENERAL RELAUNCH OF THE ECONOMY, BUT SAYS THE GOF WILL TAKE "SELECTIVE" MEASURES AT THE APPROPRIATE MOMENT. ALTHOUGH THE GOOD NEWS (LOW TRADE DEFICIT AND FALLING PRICES OF IMPORTED PRIMARY MATERIALS) SEEMS TO BE OUTWEIGHED BY THE BAD (RISING UNEMPLOYMENT), BOTH THE BOURSE AND PUBLIC OPINION HAVE SHOWN A RECENT SLIGHT STRENGTHENING.

END SUMMARY

2. FRENCH ECONOMY REMAINS COLORLESS

ACCORDING TO THE BANK OF FRANCE, THE DOMESTIC ECONOMIC SITUATION IN MAY REMAINED AS DRAB AS THAT OF APRIL. ALTHOUGH FOREIGN DEMAND CONTINUED TO STRENGTHEN, IT WAS NOT SUFFICIENT TO COMPENSATE FOR THE FURTHER WEAKENING IN DOMESTIC ORDERS. A GROWING NUMBER OF COMPANY HEADS THOUGHT THAT THEIR INVENTORIES WERE HIGHER THAN DESIRED, CONSIDERING THE LACK OF FIRMNESS IN THE ECONOMY. BACK ORDERS AGAIN DECLINED FOR INDUSTRY AS A WHOLE, ASSURING ONLY A VERY SHORT PERIOD OF ACTIVITY FOR AN INCREASING NUMBER OF INDUSTRIES.

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AS IS NORMAL FOR THE PERIOD IMMEDIATELY PRECEDING THE VACATION SEASON, PRODUCTION, ON THE WHOLE, SHOULD BE STIMULATED IN JUNE; BUT THIS SEASONAL EXPANSION SHOULD BE LESS ACCENTUATED THAN IS CUSTOMARY. ACTIVITY SHOULD RETURN TO ITS PREVIOUS LEVEL IN SEPTEMBER. BEYOND THAT, IT IS EXTREMELY DIFFICULT TO MAKE ANY PROJECTIONS DUE TO THE VERY WEAK LEVEL OF BACK ORDERS. ALTHOUGH THE HEADS OF COMPANIES SAY THAT THEY ARE VERY INTERESTED IN THE MOST RECENT MEASURES TAKEN BY THE GOF TO AID EMPLOYMENT AND INVESTMENT, THEY FEEL THAT THEY WILL BE ABLE TO TAKE SOME POSITIVE STEPS IN THIS DIRECTION ONLY NEXT FALL. THEY MUST WAIT TO SEE WHETHER A REVIVAL IN BOTH PUBLIC AND PRIVATE DEMAND ACCOMPANIES THE CURRENT ENCOURAGING RESULTS FROM THE EXPORT SECTOR.

3. BARRE: NO GLOBAL RELAUNCH BUT SELECTIVE MEASURES TO STIMULATE ECONOMY

PRIME MINISTER BARRE HAS ONCE AGAIN STRONGLY STATED HIS POSITION THAT THERE WILL BE NO GLOBAL RELAUNCH OF THE ECONOMY BUT THAT THE GOF WILL TAKE, AT THE

OPPORTUNE MOMENT IN THE COMING MONTHS, MEASURES WHICH WILL PERMIT ECONOMIC ACTIVITY TO BE SUSTAINED WITHOUT COMPROMISING THE RE-ESTABLISHMENT OF THE FUNDAMENTAL EQUILIBRIA. HE ALSO DECLARED THAT PROTECTIONISM WOULD NOT SOLVE THE UNEMPLOYMENT PROBLEM; THE GOF WAS READY TO FIGHT AGAINST "SAVAGE IMPORTS", BUT IT WOULD NOT COMPROMISE THE FUNDAMENTAL PRINCIPLE OF FREE TRADE.

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4. PARTIAL RELEASE OF CONTINGENCY FUND IS EXPECTED

ANOTHER STEP TOWARD SELECTIVE STIMULATION OF THE ECONOMY IS THE EXPECTED DECISION BY THE COUNCIL OF MINISTERS TO UNBLOCK FF ONE BILLION OF THE SPECIAL CONTINGENCY FUND, EFFECTIVE JULY L.

THIS MEASURE WILL BENEFIT PRIMARILY THE EQUIPMENT AND HOUSING SECTORS WHICH HAVE BEEN EXPERIENCING PARTICULAR DIFFICULTIES. THE BARRE PLAN PROVIDES UNCLASSIFIED

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THAT THE FF 2.5 BILLION CONTINGENCY FUND WOULD BE PARTIALLY OR FULLY SPENT IF, AT THE END OF THE FIRST HALF OF THIS YEAR, THE ECONOMY WERE FALLING SHORT OF THE ORIGINAL FORECASTS.

5. CHAMBER OF COMMERCE CALLS FOR SELECTIVE STIMULATION OF ECONOMY

THE FRENCH CHAMBER OF COMMERCE HAS ASKED THE GOF TO TAKE STEPS AS SOON AS POSSIBLE TO STIMULATE THE ECONOMY. CITING THE RISK THAT THE CURRENT ANTI-INFLATIONARY PROGRAM MAY DEGENERATE INTO DEFLATION, THE PRESIDENT OF THE GROUP RECOMMENDED SUCH SELECTIVE MEASURES AS LOWER INTEREST RATES IN ORDER TO STIMULATE INVESTMENT, SPECIAL ARRANGEMENTS TO AID SMALL AND MEDIUM SIZE FIRMS, SLIGHTLY LOWER PERSONAL AND BUSINESS TAXES, AND ACCELERATION OF GOVERNMENT INVESTMENT PROGRAMS, PARTICULARLY THE SPECIAL CONTINGENCY FUND.

6. SURVEY INDICATES SLIGHT REVIVAL IN PUBLIC CONFIDENCE IN GOF ECONOMIC POLICY

AFTER A VERY SHARP DROP-OFF IN BOTH APRIL AND MAY IN THE GENERAL PUBLIC'S OPINION OF THE GOF'S ECONOMIC POLICY, THE FIGARO-SOFRES JUNE SURVEY INDICATES A SLIGHT REVIVAL IN CONFIDENCE. HOWEVER, THE JUNE RESULTS REMAIN SIGNIFICANTLY BELOW THE MARCH LEVEL.

THE PRINCIPAL RESULTS OF THE SURVEY WERE: (1) AN INCREASE FROM 15 PERCENT IN MAY TO 17 PERCENT IN UNCLASSIFIED

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JUNE WHO THINK THAT GOF IS CONDUCTING AN EFFECTIVE FIGHT AGAINST INFLATION (VERSUS 34 PERCENT IN MARCH), AND (2) AN INCREASE FROM 40 PERCENT TO 42 PERCENT WHO EXPRESS CONFIDENCE IN GISCARD'S ABILITY TO ORIENT FRENCH ECONOMIC POLICY IN THE DESIRED DIRECTION (49 PERCENT IN MARCH). A FURTHER INTERESTING RESULT

IS THAT THERE HAS BEEN ANOTHER SHIFT IN OPINION CONCERNING WHETHER UNEMPLOYMENT OR INFLATION SHOULD BE THE GOF'S NUMBER ONE PRIORITY: UNEMPLOYMENT WAS SELECTED BY 40 PERCENT, DOWN FROM 46 PERCENT IN MAY, WHILE INFLATION WAS SELECTED BY 38 PERCENT, UP FROM 32 PERCENT.

7. RECENT STRENGTHENING OF BOURSE

ALTHOUGH THERE IS NO CAUSE FOR UNDUE OPTIMISM, THE BOURSE HAS BEEN MUCH STRONGER IN RECENT WEEKS SINCE ITS "FREE FALL" ON MAY 10 (SEE PARIS 13958). AT THE END OF MAY THE STOCK INDEX WAS 8.7 PERCENT ABOVE THE MAY LOW, WHILE THE JUNE 21 INDEX WAS 11.7 PERCENT HIGHER. DURING THE PAST SIX MONTHS, THE INDEX HAS BEEN SUBJECT TO SHARP GYRATIONS, INCREASING BY 10 PERCENT BETWEEN DECEMBER 1 - JANUARY 10 AND THEN DECREASING BY 25 PERCENT BETWEEN JANUARY 10 - MAY 10.

8. FRENCH BANKS FEEL THE PINCH OF CREDIT CONTROLS

APPARENTLY FRENCH BANKS ARE BEGINNING TO FEEL THE PINCH OF THE CONTROLS ON CREDIT EXPANSION. CREDIT HAS BEEN EXPANDING AT A FASTER RATE SINCE THE BEGINNING OF THE YEAR, DUE PRIMARILY TO THE FINANCING OF LARGER INVENTORIES. DURING THE FIRST QUARTER UNADJUSTED BANK CREDITS INCREASED BY 1.3 PERCENT. ON A SEASONALLY ADJUSTED BASIS THIS WAS AN INCREASE OF 4.0 PERCENT, COMPARED TO A 3.2 PERCENT INCREASE DURING THE LAST QUARTER
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OF 1976. AS A RESULT, MANY BANKS HAVE EXCEEDED THEIR MONTHLY ALLOTMENTS AND HAVE HAD TO DEPOSIT PENALTY RESERVES WITH THE BANK OF FRANCE. THESE SUPPLEMENTARY RESERVES INCREASED FROM FF 0.5 BILLION

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ON JANUARY 20 TO FF 1.5 BILLION ON APRIL 20.

9. PRICES OF IMPORTED PRIMARY MATERIAL REGISTER
FURTHER FALL

SOME GOOD NEWS ON THE INFLATION FRONT IS THE FALL IN
MAY IN THE INTERNATIONAL PRICES OF PRIMARY MATERIALS
IMPORTED BY FRANCE FOR THE SECOND MONTH IN A ROW.
EVEN MORE ENCOURAGING IS THE FALL IN THE PRICES
OF IMPORTED AGRICULTURAL PRIMARY MATERIALS FOR THE
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FIRST TIME IN TWO YEARS. THE INDEX FOR IMPORTED
PRIMARY MATERIALS FELL BY 6.2 PERCENT WITH RESPECT
TO APRIL, BUT IT WAS STILL 51.1 PERCENT
ABOVE THE LEVEL 12 MONTHS AGO. THE PRICES OF
AGRICULTURAL PRIMARY MATERIALS FELL BY 8.3 PERCENT
IN MAY (101.0 PERCENT INCREASE FOR THE YEAR) WHILE
THE PRICES OF INDUSTRIAL PRIMARY MATERIALS FELL
BY 2.5 PERCENT (7.0 PERCENT INCREASE FOR THE YEAR).

10. INDUSTRIAL PRODUCTION DECLINES IN APRIL
AS HAD BEEN EXPECTED FROM EARLIER INSEE AND BOF

SURVEYS, THE OFFICIAL INDEX OF INDUSTRIAL PRODUCTION REGISTERED A SLIGHT FALL IN APRIL. THE SEASONALLY ADJUSTED INDEX WAS 127, DOWN FROM 129 IN MARCH. THE DECLINE IN PRODUCTION OF ENERGY PRODUCTS WAS PRIMARILY RESPONSIBLE. ON THE BASIS OF A THREE MONTH MOVING AVERAGE, INDUSTRIAL PRODUCTION FELL BY 0.8 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN MARCH AND INCREASED BY ONLY 0.8 PERCENT WITH RESPECT TO THE THREE MONTH PERIOD ENDING IN NOVEMBER.

FRENCH INDUSTRIAL PRODUCTION

(THREE MONTH MOVING AVERAGE, SEASONALLY ADJUSTED, BASE 1970 317-) 100)

	FEB.	MAR.	APR.
TOTAL (EXCLUDING BUILDING & PUBLIC WORKS)	127	129	128
ENERGY	127	125	122
INTERMEDIATE GOODS	117	119	119
CONSUMER GOODS	139	140	141
CAPITAL GOODS	144	150	150
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11. NUMBER OF UNEMPLOYED INCREASED BY 5.5 PERCENT IN MAY ON SEASONALLY ADJUSTED BASIS

GOF'S NUMBER-ONE HEADACHE, THE UNEMPLOYMENT SITUATION, TOOK ON THE DIMENSIONS OF A SMALL MIGRAINE IN MAY. SEASONALLY ADJUSTED UNEMPLOYMENT INCREASED FROM 1,039,400 IN APRIL TO 1,096,700 IN MAY, 5.5 PERCENT INCREASE FOR THE MONTH. ON AN UNADJUSTED BASIS THERE WAS A SLIGHT DECREASE FROM 999,900 IN APRIL TO 976,100 IN MAY. FURTHER BAD NEWS WAS THE DECLINE IN SEASONALLY ADJUSTED UNFILLED JOB OFFERS FROM 103,800 IN APRIL TO 96,600 IN MAY, 6.9 PERCENT DECREASE. WE ESTIMATE SEASONALLY ADJUSTED UNEMPLOYMENT TO BE 5.3 PERCENT OF THE LABOR FORCE (SEE PARIS A-148 FOR METHODOLOGY).

12. FRENCH EXTERNAL BORROWING

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THE FOLLOWING FRENCH EXTERNL BORROWING WAS NOTED IN
THE PRESS DURING THE REPORTING PERIOD.

ELECTRICITE DE FRANCE, \$50 MILLION, 10 YEARS,
8.5 PERCENT.

13. OTHER REPORTS SUBMITTED DURING THE PERIOD

TELEGRAMS
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PARIS

18136 FRENCH TRADE BALANCE, MAY 1977, CORRECTION
17911 FRENCH TRADE BALANCE, MAY 1977
17781 OECD MINISTERIAL - BARRE-BLUMENTHAL BREAKFAST

17452 PARIS CLUB MEETING ON SIERRA LEONE

17431 - PARIS CLUB MEETING ON ZAIRE

AIRGRAMS

PARIS

A-236 FRENCH FOREIGN EXCHANGE HOLDINGS

A-223 VALUE OF TRADE IN MANUFACTURES

A-222 FRENCH RESERVES IN MAY 1977

A-219 FRENCH FOREIGN EXCHANGE HOLDINGS

A-218 VALUE OF TRADE IN MANUFACTURES

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